

Some of the monetary lags are short. The effect on expectations is immediate. If monetary policy is moving sharply, the lock-in effect is almost immediate.

Chairman PROXMIRE. The lock-in effect? What is that?

Mr. MITCHELL. Well, if you bought a Government security, say when interest rates are 5 percent and the interest rates go to 6 percent, the value of your Government security has dropped substantially.

Chairman PROXMIRE. I am talking about the effect on the fundamental objectives of the Employment Act, you know.

Can you give us any examples in which you can contend that monetary policy has a fairly quick effect on employment or on the housing industry or anything of that kind?

Mr. MITCHELL. Yes.

Well, I think that the effect of monetary policy is to defer decisions on projects that are in the formulation stage. One of the best examples is the Chesapeake Bay Bridge. The Chesapeake Bay Bridge was on the drawing boards, the plans were complete for, if I recall correctly, a period of about 3 years, but they were unable to sell the bonds because they were revenue bonds, and the market would not take them.

Now, that was a project that was vulnerable to the level of interest rates.

If the level of interest rates had been eased, the project could be financed. If the level of interest rates was raised, it could not be financed, and when it was eased they did sell the bonds, and this meant that the project came into being. Now, the amount of money was large and it was spent over a long period of years.

Chairman PROXMIRE. Are you saying that the Federal Reserve Board can follow policies that will promptly result in a change in interest rates?

Mr. MITCHELL. That—

Chairman PROXMIRE. That will promptly result. For instance, that you can increase the supply of money at a more rapid rate, which will result in a reduction in interest rates?

Mr. MITCHELL. Yes, certainly.

Chairman PROXMIRE. In how long a period?

Mr. MITCHELL. Well, it depends upon the market that you are talking of. In some markets the effect is immediate. In other markets it is more delayed.

Chairman PROXMIRE. Of course you do not know, do you?

In other words, in 1967 you followed a policy of increasing the money supply rather rapidly and interest rates kept going up.

Mr. MITCHELL. In the long-term markets.

Chairman PROXMIRE. The price of money kept going up?

Mr. MITCHELL. In the long-term market, that is true.

Chairman PROXMIRE. You have explained here the reasons for that.

Mr. MITCHELL. That is correct.

Chairman PROXMIRE. But that did happen, and the effect in terms of the housing industry therefore could not be foreseen, could it?

Mr. MITCHELL. Well, the effect on the housing industry of actions—

Chairman PROXMIRE. The tendency can be foreseen?

Mr. MITCHELL. That is right.